REPORT OF THE AUDIT OF THE
PERRY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
January 1, 2007 Through June 29, 2007

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PERRY COUNTY SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
January 1, 2007 Through June 29, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the Perry County Sheriff for the period January 1, 2007 through June 29, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of $3,388,933 for the districts for 2006 taxes, retaining commissions of $97,225 to operate the Sheriff's office. The Sheriff distributed taxes of $3,290,125 to the districts for 2006 taxes. Taxes of $48 are due to the districts from the Sheriff and refunds of $477 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Make Daily Deposits
- The Sheriff Should Enter Into A Written Agreement To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff did not have a written security agreement to protect deposits.

CONTENTS PAGE

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Denny Ray Noble, Perry County Judge/Executive
Honorable John Leslie Burgett, Perry County Sheriff
Members of the Perry County Fiscal Court

Independent Auditor's Report

We have audited the Perry County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through June 29, 2007. This tax settlement is the responsibility of the Perry County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Perry County Sheriff's taxes charged, credited, and paid for the period January 1, 2007 through June 29, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Make Daily Deposits
- The Sheriff Should Enter Into A Written Agreement To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

November 5, 2008

PERRY COUNTY
JOHN LESLIE BURGETT, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period January 1, 2007 through June 29, 2007

Charges	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Transferred From Former Sheriff	$ 293,914	$ 523,857	$ 1,205,647	$ 422,706
Current Year Franchise	104,875	263,778	463,836	
Prior Year Franchise	1,646	3,474	7,032	
Additional Billings	183	310	756	237
Oil Property Taxes	8,329	14,134	33,484	10,768
Gas Property Taxes	119,322	202,486	479,700	154,275
Penalties	7,223	12,875	29,714	10,611
Gross Chargeable to Sheriff	535,492	1,020,914	2,220,169	598,597
Credits				
Exonerations	3,953	6,978	16,320	4,740
Discounts	3,043	5,410	12,353	3,638
Delinquents:				
Real Estate	60,079	100,870	242,688	76,818
Tangible Personal Property	2,407	6,403	10,766	7,154
Current Year Franchise - Delinquent	53,072	132,228	234,379	
Prior Year Franchise - Delinquent	387	862	1,691	
Total Credits	122,941	252,751	518,197	92,350
Taxes Collected	412,551	768,163	1,701,972	506,247
Less: Commissions (a)	17,533	32,647	25,530	21,515
Taxes Due	395,018	735,516	1,676,442	484,732
Taxes Paid	394,822	735,151	1,675,683	484,469
Refunds (Current and Prior Year)	249	471	1,023	269
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	$ (53)	$ (106) (b)	$ (264) (c)	$ (6)

(a), (b), and (c) See Next Page.

The accompanying notes are an integral part of this financial statement.

PERRY COUNTY
JOHN LESLIE BURGETT, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period January 1, 2007 Through June 29, 2007
(Continued)

(a) Commissions:

4.25% on	$ 1,686,961
1.5% on	$ 1,701,972

(b) Special Taxing Districts:

Library District	$	(117)
Health District		(17)
Extension District		(20)
City of Buckhorn		48
Due Districts or (Refunds Due Sheriff)	$	(106)

(c) School Taxing Districts:

Common School District	$	(264)
Due Districts or (Refunds Due Sheriff)	$	(264)

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT

June 29, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the surety bond provided as collateral.

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 29, 2007, all deposits were covered by FDIC insurance or a surety bond; however, the Sheriff did not have a properly executed surety bond agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 2007 through June 29, 2007.

Note 4. Interest Income

The Perry County Sheriff earned $783 as interest income on 2006 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Perry County Sheriff collected $39,909 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Perry County Sheriff collected $3,285 of advertising costs and $3,785 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Denny Ray Noble, Perry County Judge/Executive
Honorable John Leslie Burgett, Perry County Sheriff
Members of the Perry County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Perry County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through June 29, 2007, and have issued our report thereon dated November 5, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Perry County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Perry County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Perry County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Perry County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through June 29, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Make Daily Deposits
- The Sheriff Should Enter Into A Written Agreement To Protect Deposits

The Perry County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Perry County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

November 5, 2008

COMMENTS AND RECOMMENDATIONS

PERRY COUNTY
JOHN LESLIE BURGETT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period
January 1, 2007 Through June 29, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Make Daily Deposits

The Sheriff did not always deposit tax receipts daily. During our test of receipts, we discovered that some tax receipts were accumulated and were not deposited into an official bank account on a daily basis. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements, which include depositing receipts intact on a daily basis and reconciling receipts to a daily check out sheet. Therefore, we recommend that the Sheriff deposit receipts daily as required by the State Local Finance Officer.

Sheriff's Response: Deposits are now being made daily.

The Sheriff Should Enter Into A Written Agreement To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of February 28, 2007, the Sheriff had bank deposits of $1,703,536; FDIC insurance of $100,000; and surety bond provided as collateral pledged of $5,100,000. Even though the Sheriff obtained sufficient collateral of $5,100,000, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the surety bond provided as collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the surety bond provided as collateral. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response: This has been corrected by obtaining a written agreement to protect deposits.

PERRY COUNTY
JOHN LESLIE BURGETT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 1, 2007 Through June 29, 2007
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks an adequate segregation of duties because employees responsible for collecting tax receipts are also responsible for preparing daily deposits, preparing receipts and disbursements ledgers, issuing checks, and for preparing the monthly bank reconciliations. In addition, no other staff member including the Sheriff verified the work performed by these individuals.

Allowing the same employees to be responsible for duties that are not adequately segregated increases the risk that misstatements or errors may occur and not be detected in a timely manner. Therefore, the Sheriff should consider segregating duties among employees to help strengthen the internal control structure in his office. For example, the duties of collecting tax receipts, recording transactions, preparing deposits, preparing bank reconciliations, and issuing checks could be delegated among different employees. When it is not practical to segregate duties, because of limited resources, the Sheriff should establish compensating controls to address the lack of adequate segregation of duties. Such compensating controls could include the Sheriff periodically reviewing and verifying the accuracy of work performed by others. The Sheriff should document his review and verification of work performed by others by initialing the work in question.

Sheriff's Response: With additional staff this segregation will be possible.